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Nano-financing: fintech for emerging markets

[Home](#)| [The European](#) | 30 October 2018

The global payments industry is advancing at a fast pace. Global payments were first standardised in 1973 when the Society for Worldwide Interbank Financial Telecommunication (SWIFT) designed a “messaging” system for “participating” banks. Big banks like JP Morgan, Citibank, Deutsche Bank, etc. emerged as leading “correspondent” banks.

There's no denying that archaic cross-border payments are one of the problems of the money business. However, getting loans from the banks is more difficult than moving money. Fintech companies are addressing both of these problems.

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Modern economic principles emphasise that a vibrant small and medium business sector is vital for a country's economy. While big companies take advantage of their plentiful resources to secure loans from big banks, the financing needs of small and medium enterprises remain largely unmet.

Small and medium enterprises lack the skills to prepare a strong case for getting their loans approved from big banks. Their collaterals may or may not qualify the minimum requirements of the big banks. To address the financing needs of small and medium business enterprises, the Microfinance industry evolved.

Microfinance banks and companies provide a complete suite of business banking products to small and medium enterprises, albeit on a small scale. The loans offered by Microfinance banks and companies can help small and medium enterprises set up cottage industries and medium scale manufacturing plants. These loans can also be used to start a foreign trade business.

The collateral for Microfinance loans is tailored to meet the scale of the business of small and medium enterprises. The interesting thing is that the percentage of the Microfinance loan default is lower than that of a regular loan.

Banking and telecoms

The alliance of banking and telecommunication companies (mobile phone carriers) shaped up in the previous decade. In the current decade, their partnership strengthened. The purpose of this alliance was to bring banking to the “unbanked”.

There are 54 recognised countries in the continent of Africa. A large footprint of the African continent falls under the “unbanked” region of the world.

The banks in partnership with telecoms introduced mobile wallets. Cash deposits and cash withdrawals can be made at local stores. The funds transfer from one user to another user can be done just by sending an SMS. The recent progress of the African continent can be largely attributed to the business partnership of banking and telecoms.

Nano-Finance

The “unbanked” regions of the world benefitted from mobile banking. Money became easily accessible to individuals. Interestingly, it also created a demand for individual “low value” loans.

The illegal business of loan sharking is a global menace. Individuals turn to loan sharks to meet their “urgent” cash flow requirements. The individuals are at the mercy of ever-changing terms and conditions of loan sharks.

Nano-Finance serves the (low value) financial need of individuals. Thanks to Nano-Financing the individuals can now forget loan sharks.

How does Nano-Financing work?

The Fintech companies have designed Apps for mobile devices. These Apps analyse device and behavioural data (social connections, texts and calls, merchant transactions, app usage, and personal identifiers) of the applicant by executing complicated algorithms (which require frequent revisions). Based on that data, the App “churns out” questions which the applicants are required to answer. Finally, the algorithms make “real time” credit decisions.

A national identity card, selfie and the answers to the questions are all that is required. In most cases, your loan gets approved in fifteen minutes.

Note: There is no fixed standard of processing Nano-Finance loans. Each Nano-Finance company has its own set of policies, procedures and algorithms

Important characteristics of Nano-Financing

As the name implies, the amount of Nano-Finance is small. It can meet your needs for emergency hospitalisation, help you with cash flow shortage for your home expenses and if you are a roadside hawker, you might get enough funds to meet your weekly business expenses.

The money is disbursed via mobile wallets. Some Nano-Finance companies require that the individual visit the local mobile shop to get cash by presenting the approval code. Others make a direct credit to customers' mobile wallet.

Nano-Finance carries a high risk of default. To mitigate the risk, Nano-Finance companies offer loans at higher rates. These companies need to maintain a NET positive cash flow to operate.

The benefit to the applicant is that the loan is processed by companies which work in a regulated industry. Also, the terms and conditions of the loans are transparent.

Latest News:

Reuters (22 October 2018) reports:

“PayPal Inc has made a strategic investment in TALA, a financial technology startup that lends to under-served consumers in emerging markets, the companies said on Monday.

The companies declined to disclose the amount of the investment, but TALA said it will use the funding to further develop its product and broaden its reach”.

Commenting on this development, TALA CEO and founder Shivani Siroya said:

“We see we are all very mission-aligned, both TALA and PayPal. It’s been clear through the due diligence process that we share the commitment to building the financial health of the under-served.”

Mark Britto, SVP and GM Global Credit, at PayPal, said:

“TALA shares our vision of re-imagining financial services, especially for the unbanked and those under-served by the traditional financial system”.

About TALA

- TALA is based in Santa Monica, California, USA
- The company extends Nano-Finance loans in four countries; Kenya, Philippines, Tanzania and Mexico
- Number of employees – 300
- The loan amounts it offers are between US \$10 and US \$500
- The company has financed more than US \$500 Million to its customers through its App

Future of Nano-Finance

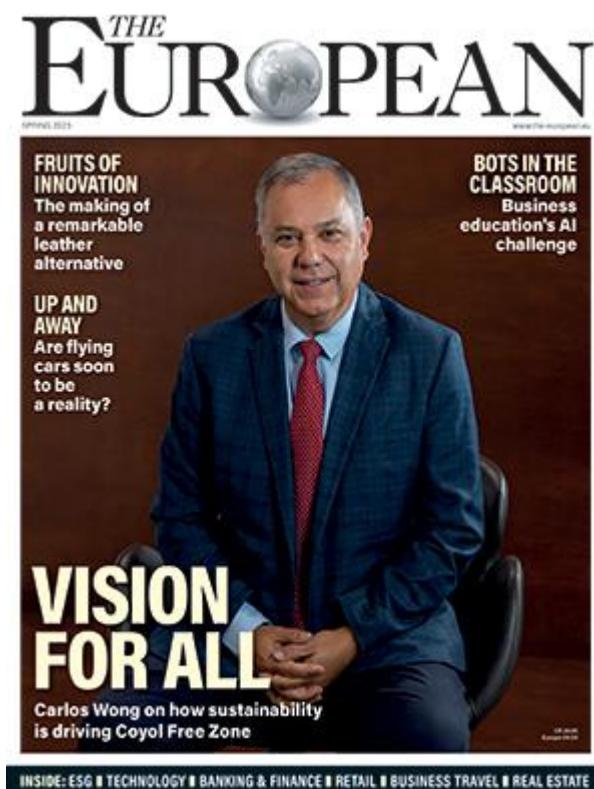
World Bank's 2017 Global Findex database states:

"While more than two-thirds of the adult population has access to banking and mobile money accounts, 1.7 billion adults remain unbanked".

The business potential in this sub-segment of Fintech is huge. TALA is not alone in the Nano-Finance industry. There are many Fintech companies extending Nano-Finance loans. However, TARA now has the backing of PayPal, which is one of the most popular payment processors of the world.

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